

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6500**

**BILL NUMBER:** HB 1109

**NOTE PREPARED:** Dec 10, 2002

**BILL AMENDED:**

**SUBJECT:** Back to School Sales Tax Holiday.

**FIRST AUTHOR:** Rep. Hasler

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill provides a Sales Tax exemption each year for school supplies and articles of clothing priced at less than \$100 each that are purchased during the ten day period beginning on the first Friday in August.

**Effective Date:** July 1, 2003.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** *Summary:* Exempting certain clothing and school supplies from the 6% Sales Tax is expected to reduce state revenue by \$10.3 M in FY 2004 and \$10.7 M in FY 2005.

*Background:* The impact of this proposal was evaluated based on household clothing expenditure data obtained from the U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey* (CSE), and school supply expenditure data from the School and Home Office Products Association (SHOPA).

Clothing expenditure data provided by the CSE were adjusted for seasonal differences in clothing sales, inflationary growth, and changes in Indiana's population. Based on these adjustments, it was estimated that the clothing portion of this exemption would reduce FY 2004 revenue by \$7.8 M.

In addition to the exemption on clothing priced less than \$100, the bill also exempts certain school supplies from the Sales Tax. Data provided from SHOPA were adjusted for expected growth in Indiana's school-aged population and inflation. Based on this information, it was estimated that the temporary exemption of certain school supplies from the Sales Tax will reduce state revenue by approximately \$2.5 M in FY 2004. It should

be noted that due to data limitations the estimate only includes purchases of supplies for school-aged students. Other purchasers of school or office supplies would also be exempt from paying the Sales Tax during the exemption period.

The estimates above are based on historical data and projected growth. They do not include any additional taxable sales that may result if consumers chose to spend their tax savings on other taxable goods. Additionally, the revenue loss may be partially mitigated by increased taxable sales of other items, such as meals or other taxable items not included in this exemption.

P.L. 192-2002 (ss) increased the Sales Tax rate to 6% and modified the distribution of Sales Tax revenue. The increase became effective on December 1, 2002 and the distribution changes are effective January 1, 2003. After January 1, 2003, Sales Tax revenue will be deposited in the Property Tax Replacement Fund (50%), the State General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Loan Fund (0.033%).

The reductions in the above funds due to the Sales Tax exemption proposal are estimated to be:

	<b><u>FY 2004</u></b>
Property Tax Replacement Fund	\$ 5,147,000
General Fund	5,064,000
Public Mass Transportation Fund	65,000
Commuter Rail Service Fund	14,000
Industrial Rail Service Loan Fund	<u>3,000</u>
<b>Total</b>	<b><u>\$10,293,000</u></b>

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** U.S. Bureau of Labor Statistics; U.S. Census Bureau; School and Home Office Products Association.

**Fiscal Analyst:** John Parkey, 232-9854